



King County



KING COUNTY AUDITOR'S OFFICE

FEBRUARY 11, 2025

Opportunities for Improvement in Returned Check Fees, Collections

MEGAN KO

EXECUTIVE SUMMARY

Banks return about 2 percent of all checks received by King County without honoring them. These returns require staff resources and result in unpaid debts. Ultimately, unpaid debts — including, but not limited to, returned checks — may end up in collections, where customers face costs that are 31 percent higher than their original bills. Some county agencies have not reviewed returned check fees for years, despite changes in fee rates and payment options. This has increased the risk of inefficiency, inequity, and noncompliance. For example, King County Treasury Operations could increase General Fund revenues by \$32,000 per year if it expanded returned check fees to electronic checks, which are an increasingly popular payment option. Similarly, county agencies have not reviewed nor documented collections processes following the profound disruptions of the COVID-19 pandemic. This has increased the likelihood that customers receive services on credit, despite state prohibition of this practice.

Acknowledgment

We would like to thank the following agencies for their responsiveness and cooperation during the audit: Finance and Business Operations Division (including Treasury and Financial Management sections), King County International Airport, Real Estate Services Division, and Regional Animal Services of King County within the Department of Executive Services; the Department of Judicial Administration; King County Parks and Wastewater Treatment divisions within the Department of Natural Resources and Parks; Environmental Health Services within the Department of Public Health–Seattle & King County; and King County District Court.

Several agencies made immediate changes based on our questions and observations, including Finance and Business Operations and King County Parks divisions. Other agencies facilitated our review by providing qualitative and quantitative information. We are grateful for staff taking the time to walk through process details and audit criteria that covered fiscal, customer service, and operational responsibilities and goals.

REPORT HIGHLIGHTS

What We Found

King County agencies have not reviewed returned check fees for years. This has increased the risk of inefficiency, inequity, and noncompliance. For example, King County Treasury Operations, which receives 74 percent of the County's returned checks, only applied the fee to customers who wrote paper checks. Amid increasing popularity of electronic payments, this decision costs the County an estimated \$32,000 in annual General Fund revenue and may disproportionately burden senior and low-income residents, who are more likely to write paper checks. We also found that price differences between fees in King County Code and King County Board of Health Code resulted in Public Health customers paying too much for returned checks.

County agencies lacked guidance in navigating the collections process, limiting consistency, accountability, and compliance. Just as agencies set their own returned check fees, they determine when and how to leverage the County's collection's vendor. For example, we found that Regional Animal Services of King County sent accounts to collections after they were 45 days past due without a clear rationale, while most other agencies waited 90 days. We also found that King County Parks and Environmental Health Services divisions lacked effective controls to ensure timely payments and referrals to collections.

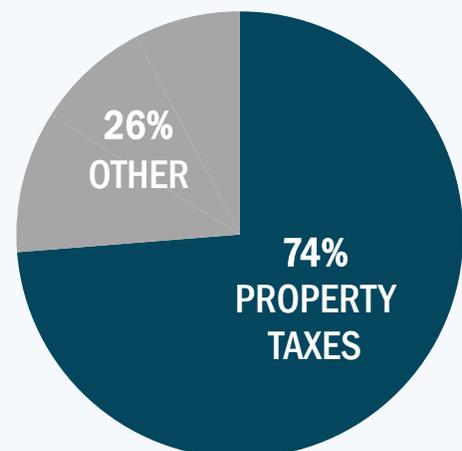
What We Recommend

We recommend that county agencies periodically review returned check fees. This includes determining the cost of processing returned checks and setting cost recovery goals that balance equity and fiscal responsibility. We also recommend that the Finance and Business Operations Division develop guidance to assist agencies in their review. Finally, we make recommendations to Parks Division and Public Health–Seattle & King County to document and implement standard operating procedures that ensure fair and consistent submission of overdue accounts to collections.

Why This Audit Is Important

Banks return about 2 percent of all check payments received by King County. These returns result in unpaid debts and require staff resources to reverse old payments and request new ones. In recognition of this effort, state law allows the County to collect a reasonable handling fee for returned checks. King County Council raised the handling fee to \$35 in 2010, after a staff report showed that the fee rate was too low to cover staff costs. Beyond establishing a fee rate, county code leaves it to agencies whether to charge customers the fee. Similarly, county agencies have discretion in whether they send unpaid debts to collections. Decisions about both returned check fees and collections affect revenue generation and customer cost burdens.

Most returned checks were for property taxes.



Source: King County Auditor's Office analysis

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Section 1: Returned Check Fees Not Tied to Cost Recovery, Equity Aims

SECTION SUMMARY

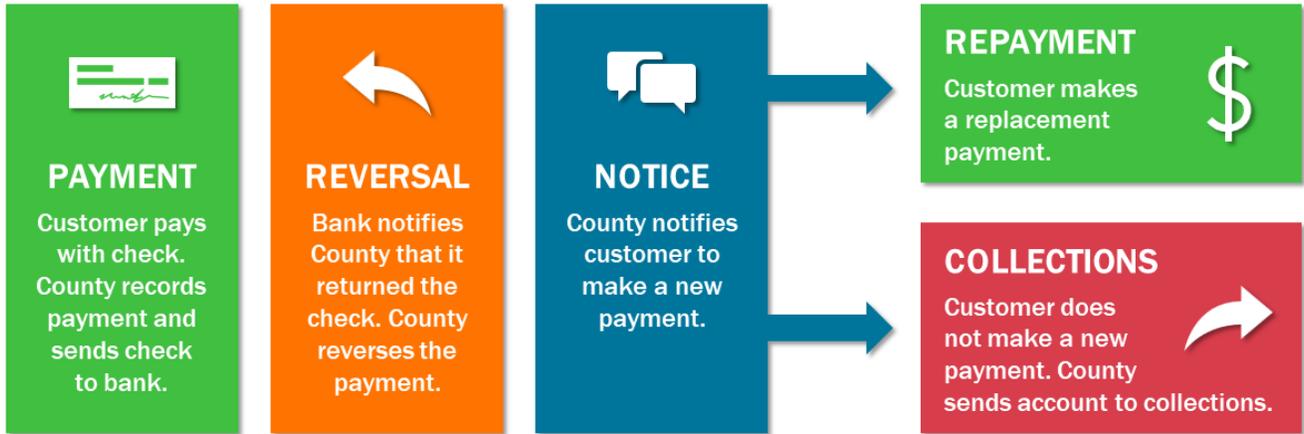
King County agencies have not reviewed returned check fees for years, increasing the risk of inefficiency, inequity, and noncompliance. In a review of seven agencies, we found variation in how agencies applied returned check fees.¹ Two agencies stood out for applying the fee to only a small subset of customers. One of the two agencies, King County Treasury Operations, only applied the fee to customers who wrote paper checks. This decision costs the County an estimated \$32,000 in annual General Fund revenue and may disproportionately burden senior and low-income residents, who are more likely to use paper checks according to federal consumer payment research. We also found that the fee rate set for returned checks differs across King County Code and King County Board of Health Code, making compliance more complicated. As a result, Public Health customers paid returned check fees that were 40 percent higher than Board of Health Code authorized. Returned check fees help the County recover the costs of processing returned checks by shifting the cost to customers whose checks have been returned—this requires clear accounting of costs and goals related to cost recovery and equity.

How do returned checks relate to collections?

Returned checks are unpaid debts to King County, which may be sent to collections. Customers may pay the County with a check only to have it returned by a bank. This means that the County did not collect any funds from the customer. The County then needs to notify the customer of the return and request a new payment. If no new payment is provided, after a certain amount of time, the agency who received the returned check may send the unpaid debt to collections. Beyond returned checks, other types of unpaid debt include non-payment for services. Section one of this report relates to returned checks, while section two encompasses collections process for all accounts sent to collections, not only returned checks.

¹ King County agencies are shown on exhibit D and include Treasury Operations, Regional Animal Services of King County, Department of Judicial Administration, Parks Division, Wastewater Treatment Division, Environmental Health Services Division, and District Court.

EXHIBIT A: Returned checks are unpaid debts which may be sent to collections.

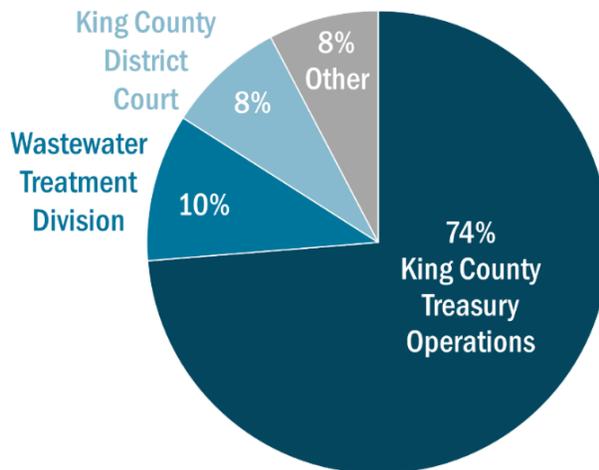


Source: King County Auditor's Office analysis

? What are returned check fees?

Returned check fees are handling fees that county agencies add to check payments that are returned by the bank. King County Code 4A.600.100 set the fee at \$35 in 2010. Handling fees generate revenue to help recover the costs borne by agencies processing returned checks, including staff time to correct accounting records and bank fees. Returned check fees are also called dishonored check fees.

EXHIBIT B: Most returned checks were for property taxes paid to King County Treasury Operations.



Note: Percentages are of the total 14,948 returned paper and electronic checks between 2021 and 2024 for Treasury Operations, Regional Animal Services of King County, King County District Court, Parks Division, Wastewater Treatment Division, Environmental Health Services, and Department of Judicial Administration.

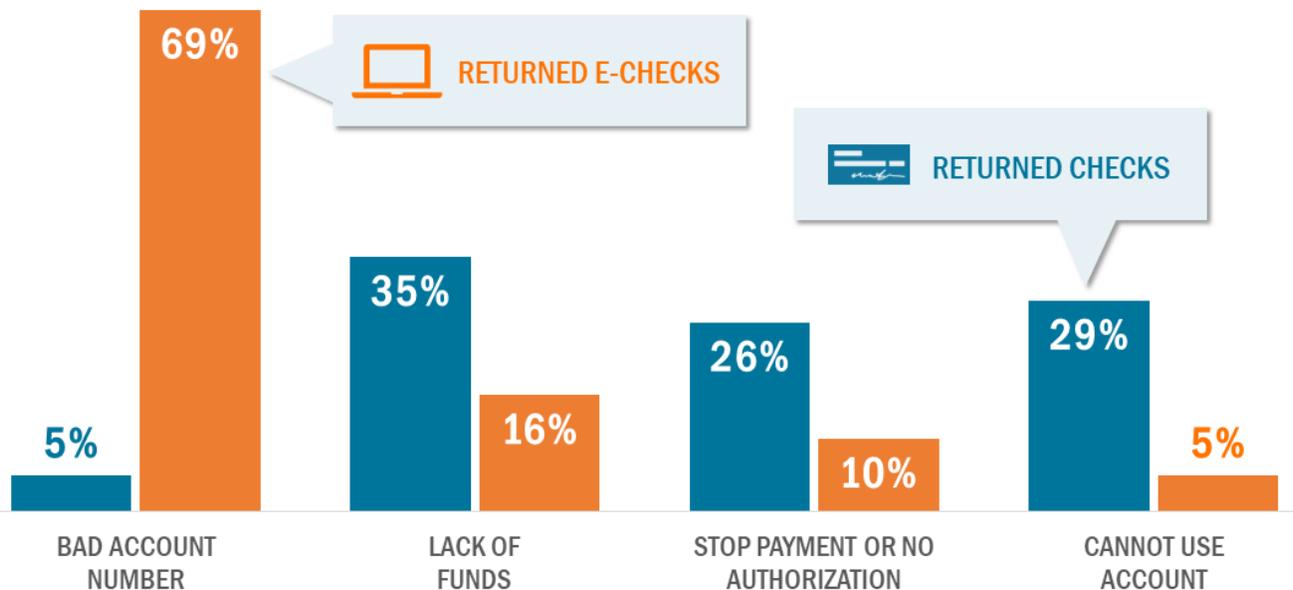
Source: King County Auditor's Office analysis

? Why do banks return checks?

Checks are returned for various reasons, from entry of incorrect account information to lack of funds.

The breakdown of return reasons depends in part on whether customers pay with paper checks or with electronic or “e-checks” (see exhibit C).² For example, in a review of checks returned to King County between 2021 and mid-2024, we found 69 percent of e-checks were returned because customers entered their bank account numbers incorrectly. No single return reason was as common among paper checks. Paper checks were almost as likely to be returned for lack of funds (35 percent) as to be returned for an account number that could not be used (29 percent) or for a stop payment order by the customer (26 percent). Returned check fees are sometimes called “NSF” fees, short for “nonsufficient funds,” however, this is a misnomer as checks can be returned for many reasons. Regardless of return reason, we found that both paper and e-checks had return rates of about 2 percent.

EXHIBIT C: E-checks were typically returned for bad account numbers, while paper checks were most often returned for lack of funds.



Note: Percentages do not add up to 100 because less common reasons are excluded. Percentages are based on a review of 3,265 paper checks from a main bank account and 11,261 returned e-checks for all county agencies from January 1, 2021, through June 30, 2024. “Cannot use account” refers to an existing account that cannot be used, for example, because it is closed or frozen.

Source: King County Auditor’s Office analysis

² E-checks are a form of online payment where customers enter their bank routing number and bank account number.

Lack of information increased risk

County agencies made decisions about returned check fees without relevant information, increasing the risk of misalignment between strategies and goals.

In a review of seven county agencies, we found various approaches to returned check fees. Since these agencies vary widely in their lines of business and customer bases, they need not have the same approach to returned check fees. However, consistency could improve operations, and each agency should ensure its approach accounts for cost recovery in alignment with county revenue policies and adheres to relevant laws, rules, and county goals.³ As discussed below, some agencies decided how to apply returned check fees without conducting a cost recovery or equity analysis, while others did so without full awareness of the regulatory environment.

EXHIBIT D: Two agencies in our sample took narrow approaches to returned check fees.

COUNTY AGENCY	CHARGES FEE?
Treasury Operations	ON PAPER CHECKS ONLY
Wastewater Treatment Division	FOR "LACK OF FUNDS" REASON ONLY
District Court	YES
Department of Judicial Administration	YES
Environmental Health Services	YES
Parks Division	YES
Regional Animal Services of King County	NO

Note: Parks Division does not accept e-checks.

Source: King County Auditor's Office analysis

Best practice is to document processes and communicate quality information to achieve goals. The Finance and Business Operations Division (FBOD) did not have guidance on returned checks, limiting the availability of quality information. As a

³ See Office of Performance, Strategy and Budget (updated February 15, 2022), Comprehensive Financial Management Policies, Revenue Policies, IV, Fees and Grants, User Fees and Service Charges.

result of our audit, FBOD circulated to finance managers a draft policy on returned checks in November 2024.

Recommendation 1

The Finance and Business Operations Division should document and communicate guidance on returned check fees to all county agencies.

Treasury Operations approach lacked revenue basis

Treasury Operations limited fees to paper checks, opting not to collect 73 percent of potential fee revenue, increasing the risk of disparate treatment. As the agency responsible for collecting property tax payments, Treasury Operations gets more returned checks than any other county agency by a large margin.⁴ In 2023, it processed nearly 3,400 returned checks. Treasury Operations added returned check fees to the 27 percent of returned items that were paper checks but did not add the fees to the 73 percent of returns that were e-checks. As a result, Treasury Operations does not collect an estimated \$32,000 in annual revenue.⁵ Treasury Operations said that applying returned check fees to e-checks would increase processing costs, resulting in a net gain to the County of less than \$32,000. It has not calculated processing costs for either paper checks or e-checks nor set a cost recovery target.

⁴ For returned checks by check type for select agencies, see appendix 1.

⁵ We estimate that Treasury Operations could increase fee revenue to \$44,000 a year from \$12,000 a year based on the number of e-checks returned from 2020 through 2023, and assuming a stable collection rate at 43 percent. This is likely a conservative estimate since King County District Court saw the collection rate on its returned check fees more than doubled after it began accepting e-checks in 2021.

EXHIBIT E: Narrow approaches to returned check fees suppressed revenue.

STRATEGY	ANNUAL REVENUE	FOREGONE REVENUE
King County Treasury Operations limited fee to paper checks	\$12,000	\$32,000
Wastewater Treatment Division limited fee to "lack of funds" reason	\$373	\$5,000

FOREGONE REVENUE	=	FEE	X	EXEMPTED CHECKS	X	FEE COLLECTION RATE
		\$35		Number of checks exempted from fee by agency rule		Annual revenue divided by number of checks subject to fee times the fee

Note: Annual revenue is the average for 2021 through 2023, reported in the central financial system. For foregone revenue, data for 2021 through 2023 is averaged for exempted checks, and the fee collection rate, which was 43 and 36 percent for Treasury Operations and Wastewater Treatment Division, respectively. See appendix 2 for returned check fee collection rates by year for select agencies.

Source: King County Auditor's Office analysis

King County revenue policies direct agencies that impose fees to prepare and periodically review the costs and fees to ensure adequate cost recovery. The policies direct agencies that do not recover county costs to maintain documentation of the policy rationale for the exception. Decisions about fees should take into consideration the full cost of providing a service, including the cost of administration. We found that vendor fees accounted for a small fraction of costs associated with returned checks, averaging \$2.30 per returned paper check, with no fee applied to e-checks. In contrast, the King County Council staff report supporting the increase in returned check fees in 2010 said Treasury Operations spent \$28.70 to process each returned check. Processing costs may have changed since 2009.

Treasury Operations approach lacked equity basis

By limiting fees to paper check users, Treasury Operations may disproportionately affect seniors and low-income communities. Research by Federal Reserve Bank of Atlanta shows that seniors are more likely than any other age group to pay with paper checks. It also suggests that people with higher incomes are more likely to make online payments. County revenue policies state that decisions

about fees should consider the impact of the fee on all residents, especially those economically at-risk and that variable pricing should support equity and other programmatic goals. Treasury Operations has not conducted an equity analysis on the use of returned check fees.

Treasury Operations’ website incorrectly informed customers that e-checks were subject to returned check fees. Treasury Operations said information on its website was intended to instruct customers how to enter account information correctly and that technical limitations made it difficult to apply the fee to e-checks users. Treasury Operations aims to address technical limitations with a new system in the next few years, however, faster workarounds exist. For example, both Wastewater Treatment Division and King County District Court mail paper notices to assess the fee on customers whose e-checks were returned.

Recommendation 2

King County Treasury Operations should develop, document, and implement a plan to periodically review the cost of returned checks to ensure returned check fees adequately recover costs and align with programmatic goals as outlined in King County Comprehensive Financial Management Policies.

WTD approach lacked equity basis

The Wastewater Treatment Division (WTD) limits returned check fees to checks returned for “lack of funds,” increasing cost burdens on customers with limited financial means. E-checks accounted for 90 percent of returned checks for capacity charge payments collected by WTD. Among these returned e-checks, only 10 percent were returned for lack of funds, compared with 81 percent returned for bad account numbers. WTD is the only agency we interviewed that limited returned check fees to a specific return reason. In addition, WTD’s website inaccurately informed customers that it assessed fees on e-checks returned for incorrect account information.

WTD has not reviewed the cost of returned checks alongside cost recovery and equity goals. If WTD were to expand returned check fees to all returned checks, it would increase its fee revenue twelvefold to an estimated \$5,000 a year from its current average of \$373.⁶ WTD did not anticipate that expanding the fee would result in inequities since people paying capacity charge payments tend to be new homeowners, thus less economically at-risk, and because customers in its low-

⁶ Our estimate is based on the number of returned checks and the fee collection rate from 2020 through 2023. WTD had an average collection rate of 36 percent.

income housing program were not among those with returned checks. Expanding the fee to more common reasons for return, such as bad account numbers, could also have a deterrent effect by motivating more customers to enter their account information correctly. Alternatively, a fee review could assess whether foregoing returned check fees all together would better align with fiscal and equity goals. WTD's strategy both lowers fee revenue and misses the opportunity to either prevent returned checks or lower administrative costs.

Recommendation 3

The Wastewater Treatment Division should develop, document, and implement a plan to periodically review the cost of returned checks to ensure returned check fees adequately recover costs and align with programmatic goals as outlined in King County Comprehensive Financial Management Policies.

Public Health fee too high

Public Health–Seattle & King County charges returned check fees per King County Code, charging customers more than Board of Health Code allows. The department charged customers a \$35 fee for returned checks in line with King County Code 4A.600.100. However, King County Board of Health Code 2.06.020 sets the fee at \$25.⁷ Because of the conflicting regulations, and without documented standard operating procedures or central guidance, staff did not know whether they were charging the correct rate. Best practice is to consider applicable laws and statutes before implementing specific fees. Environmental Health Services (EHS) Division collected about \$1,500 a year in returned check fees from 2020 to 2024.

EHS returns lacked oversight

EHS does not enter all returned checks into its receipting system, increasing the risk that it provides credit to customers out of alignment with state requirements. Between 2021 and 2023, EHS entered 85 percent of returned checks into its receipting system, leaving 35 payments in the system that did not clear the bank. As a result, cash receipts would not match accounting records and staff would need to do additional research to identify outstanding debts. By not updating receipts for all returned checks, EHS risked providing credit to private entities, which the state constitution prohibits. Department accounting staff kept a log of returned paper checks but did not monitor e-checks, which are more common. In addition,

⁷ Title 10 of King County Code, governing Solid Waste Division, also has its returned check fee listed as \$25. Solid Waste Division was not in the scope of this audit.

department staff did not document standard operating procedures for returned checks nor regularly share logs with division staff to ensure follow-up until customers paid their debt. Best practice is to document the internal control system, assign responsibility, and perform monitoring activities.

Recommendation 4

Public Health–Seattle & King County should develop, document, and implement standard operating procedures for returned checks that include pricing criteria, roles and responsibilities, and monitoring activities to ensure complete and accurate fee collection and data entry.



Section 2: Collections Procedures Lacked Oversight

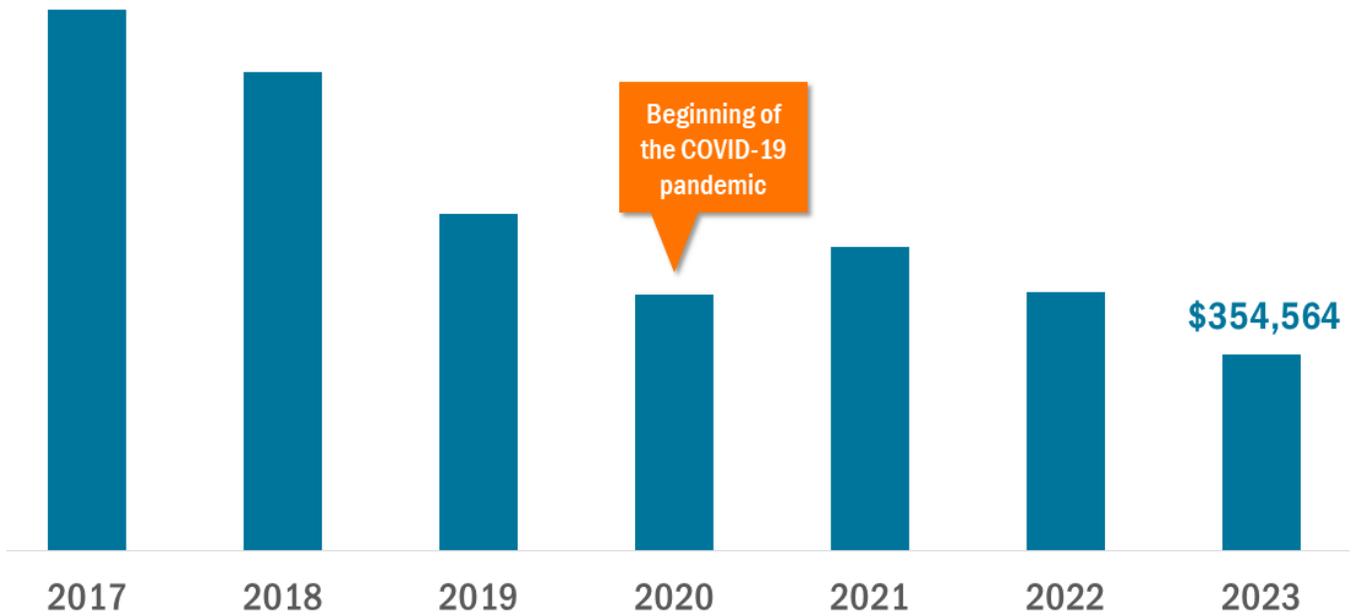
SECTION SUMMARY

King County agencies do not have guidance to navigate the collections process, limiting consistency, accountability, and compliance. Just as agencies set their own returned check fees, they decide when and how to leverage the County's collection vendor for all types of debt, regardless of whether it results from a returned check. These decisions also involve tradeoffs. Using the collection vendor negatively affects customers with higher bills and negative credit reports, while mitigating risk to the County, which is prohibited from providing credit to private entities. If the County did not send any accounts to collections, customers might make fewer and later payments and, in effect, result in less revenue for government services or the County providing services on credit. In a review of five agencies,⁸ we found that Regional Animal Services of King County (RASKC) had the earliest standard collection timeline, and that Parks and EHS divisions lacked strong controls to ensure timely payments and consistent processes.

How much debt goes to collections?

King County agencies sent \$355,000 in debt to a collection agency through FBOD in 2023. This amount was down two-thirds from \$980,000 in 2017. The COVID-19 pandemic, from 2020 through 2022, reduced collections activity as governments took steps to limit economic burdens on residents. In this section, debt going to collections is inclusive of all unpaid debt and is not limited to debt resulting from returned checks.

⁸ King County agencies include Finance and Business Operations Division, which sends accounts to collections on behalf of various agencies; Regional Animal Services of King County; Parks Division; Environmental Health Services Division; and District Court. Treasury Operations and Wastewater Treatment Division do not send Property Tax and Capacity Charge accounts, respectively, to collections since they have other means to compel payment, such as property liens.

EXHIBIT F: County agencies sent less debt to collection vendor after the COVID-19 pandemic.**\$979,029**

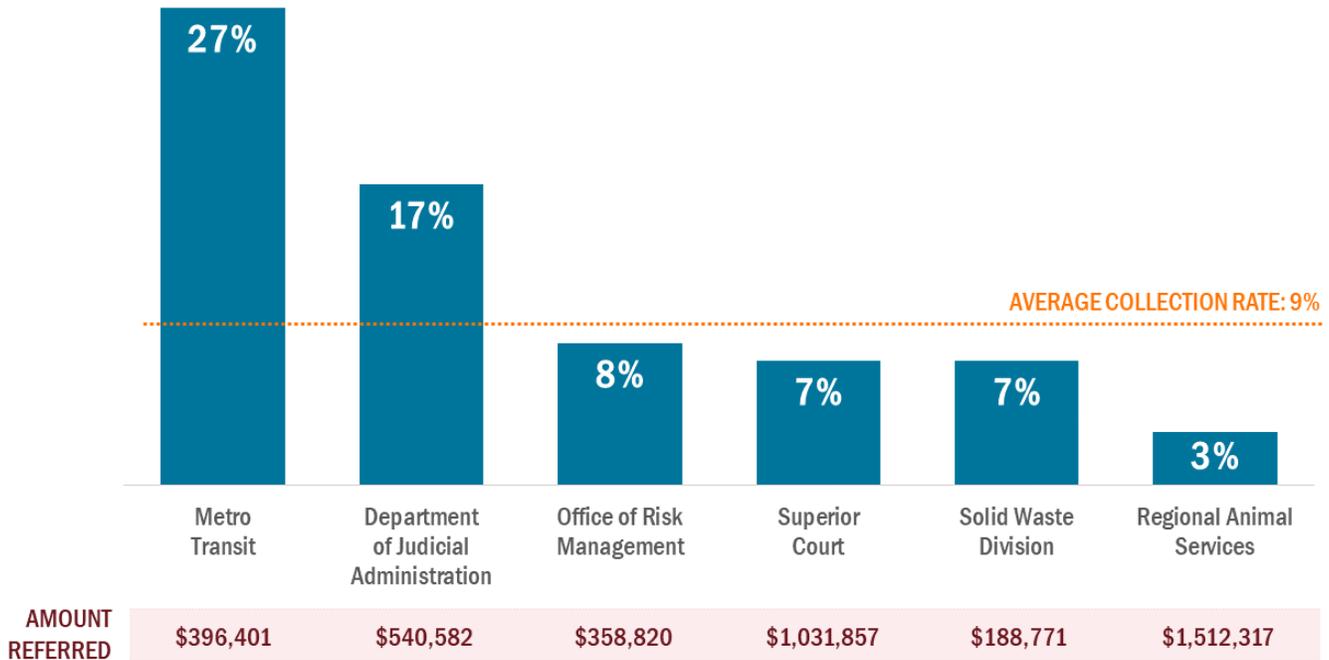
Note: Data is for all county agencies referring accounts to collections via the Finance and Business Operations Division. This excludes King County District Court. Dollar amounts shown are amounts referred less amounts canceled.

Source: King County Auditor's Office analysis

? What is the collection rate?

The collection rate refers to the amount received by King County from collections activity, divided by the amount referred to collections, minus the amount referred and then canceled. Collection rates varied widely by agency.

Between 2017 and mid-2024, county agencies combined collected 9 percent of debt sent to collections.

EXHIBIT G: Collection rates varied widely, even among agencies making annual referrals.

Note: Data is from 2017 through June 5, 2024, for agencies that made annual collections referrals through the Finance and Business Operations Division in that period. Collection rate refers to the amount collected, divided by the amount referred, less the amount canceled.

Source: King County Auditor's Office analysis

FBOD fee unchanged since 2010

FBOD has been charging the same administrative fee on debt referred to collections since 2010, increasing the risk that it is too high or too low to meet cost recovery and equity goals. FBOD's collection vendor adds a commission of 21 percent on top of the debt. In addition, FBOD adds a 10 percent administrative fee for the time it spends reconciling money sent by the vendor to agency accounts.⁹ FBOD has not conducted periodic reviews of this fee in accordance with county revenue policy. The policy directs agencies to prepare and periodically review costs to ensure fee revenues align with cost recovery goals and ensure that fee burdens are spread equitably.

⁹ FBOD charges the fee because it submits information to the vendor on behalf of other county agencies and makes accounting entries when the vendor remits payment. In contrast, King County District Court, which manages its own accounts directly with the vendor, does not charge an administrative fee.

EXHIBIT H: Customers with past due accounts in collections paid over 31 percent more than accounts not referred to collections.

DESCRIPTION	PERCENT OF PRINCIPAL DEBT
Vendor commission	21%
Finance and Business Operations Division administrative fee*	10%
Interest**	12% per year

*Not applicable to King County District Court accounts.

**Interest is applied daily at a rate of 0.12, divided by 365 days.

Note: State law allows governments to charge people whose accounts are sent to collections a reasonable fee and notes that a fee of up to 50 percent of the first \$100,000 on an account is reasonable. Collections that involve litigation add another 9 percent vendor commission.

Source: King County Auditor's Office analysis

Recommendation 5

The Finance and Business Operations Division should develop, document, and implement a plan to periodically review the cost of reconciling payments from collections to ensure administrative fees adequately recover costs and align with programmatic goals as outlined in King County Comprehensive Financial Management Policies.

Lack of guidance reduced consistency

King County agencies developed approaches to collections without relevant information, increasing the risk of disparate treatment and noncompliance with state law. Because of the unique operating environment of each county agency, FBOD does not direct agencies on whether to send accounts to collections and does not have central guidance related to collections. Operating without relevant guidance, agencies made inconsistent decisions about how to treat customer debt. As discussed below, FBOD sends accounts to collections after they are 90 days past due, while one agency did so in half the time, and others lacked clear time standards. FBOD has had a legal review of its collection notices, while other agencies lacked standard notices, increasing the risk that customers were not provided timely and sufficient information about their debt. Central guidance would help agencies design and implement their own standard operating procedures to improve accountability and reduce the risk that credit is provided to private entities. Best practice is for

management to use quality information and communicate internally to achieve its objectives. As a result of our audit, FBOD circulated to finance managers a draft policy on collections in November 2024.

Recommendation 6

The Finance and Business Operations Division should develop, document, and communicate guidance on the use of collections to all county agencies.

RASKC accounts sent to collections early

RASKC sent accounts to collections earlier than any other agency in our sample, increasing the cost of debt for its customers. RASKC sends debt related to animal care violations and shelter stays to collections after 45 days. This is 15 days longer than the waiting period required by state law but half the time that FBOD considers standard practice. FBOD manages collections for agencies billing through King County's central finance system, including the Department of Judicial Administration, Metro Transit, Solid Waste Division, and Superior Court's Family Court Operations. Before 2020, RASKC sent accounts to collections after the state-mandated 30 days. It increased the collection time standard to 45 days to reduce financial burdens on customers amid the pandemic.

EXHIBIT I: Regional Animal Services of King County waited half as long as other agencies before sending debt to collections.



Source: King County Auditor's Office analysis

RASKC had the lowest collection rate of agencies in our sample. The reasons for this are varied. RASKC said that most debt was non-payment of fines rather than service fees, making it less comparable to other county agencies. That said, early handoff to the collection vendor may also affect collections. In guidance related to collections, the Office of the Washington State Auditor recommends relying more on internal (agency) collections than private debt collectors to provide better customer service and better understand reasons for non-payment, which could result in better rates of collection. RASKC staff mentioned the importance of building a positive, mission-driven relationship with community members and finding the most effective ways to contact people about their debt. Staff did not, however, have standard operating procedures that outlined how collections procedures would achieve these and other agency goals.

Recommendation 7

Regional Animal Services of King County should develop, document, and implement standard operating procedures for sending accounts to collections that address how processes align with agency goals related to equity, efficiency, and effectiveness.

Parks Division lacked standard process

Parks Division lacks clear processes for referring accounts to collections, increasing the risk of disparate treatment and noncompliance. Staff across the division's multiple revenue centers said that collections rules were unclear, outdated, or not being followed.¹⁰ One documented process said accounts went to collections after 90 days, while another said that accounts went to collections when all attempts have been made to collect, without a clear timeline. Similarly, Parks Division did not consistently apply other internal collection efforts, such as withholding reservations for customers with aging debt. Parks Division did not send any debt to collections between 2021 and mid-2024.

Letters notifying customers of debt cited a 15-day payment requirement, risking noncompliance with state law. State law requires a notification period of at least 30 days before sending accounts to collections. Parks Division staff reported that the agency did not have template letters to notify customers of outstanding debt and that the division drafted letters as needed.

¹⁰ Revenue centers include Marymoor Park, Regional Scheduling Unit, and King County Aquatic Center.

Recommendation 8

King County Parks Division should develop, document, and implement standard operating procedures for sending accounts to collections that include clear timelines, rules for any exceptions, and template letters that align with state requirements for notice of collection.

Parks Division facility saw invoice delays

Parks Division’s King County Aquatic Center (KCAC) did not invoice customers in a timely way, increasing the risk it provided credit to private entities and reducing customer service. KCAC bills teams and organizations who book the facility for competitions and events. In a review of unpaid invoices dating back to January 2023, we found that the median time lag between the event date and invoice due date was two months, with 44 percent of invoices issued more than three months after the event occurred. This did not align with the agency’s monthly billing requirement.

Because KCAC did not invoice customers regularly, some customer accounts with unpaid balances dating back several months appeared current. This could be considered providing credit to private entities, which the state constitution prohibits. Late billing also led to poor customer service for customers who wanted to make timely payments and did not know how much they owed. KCAC lacks standard operating procedures related to billing and did not regularly monitor how often invoices were going out.

Recommendation 9

King County Parks Division should develop, document, and implement standard operating procedures to ensure that Parks Division bills customers of the King County Aquatic Center monthly and that customers pay in full within 30 days of billing.

EHS lacked standard process

EHS lacks clear rules for referring accounts to collections, increasing the risk of disparate treatment and provision of credit to businesses out of alignment with state requirements. Between 2021 and September 2024, EHS sent three accounts totaling \$2,000 to collections despite having more than \$572,000 in unpaid debt across 579 invoices that was more than four months old.

EHS is divided into four sections managing a multitude of permits and inspections, ranging from restaurants, pools and spas, plumbing, piping and septic systems, and toxics such as solid and biomedical waste. Each section handles collections differently with limited oversight. Staff reported notifying customers of past due accounts via post, email, and in person (e.g., during on-site inspections), but EHS did not have standard operating procedures outlining the collections process and associated timelines. The Office of the Washington State Auditor recommends beginning collection efforts as soon as possible to increase the likelihood of collection and formalizing collections processes, including specifying when agencies will send debt to collections.

Recommendation 10

Public Health–Seattle & King County should develop, document, and implement standard operating procedures for sending accounts to collections that clarify roles and responsibilities at the division and department level.

Appendix 1: Returned Checks by Type for Select Agencies

EXHIBIT 1: Returned checks by type, 2021-2024*

COUNTY AGENCY	2021		2022		2023		2024*	
	Paper	E-check	Paper	E-check	Paper	E-check	Paper	E-check
Treasury Operations	819	1780	710	2236	918	2479	522	1558
District Court	100	154	124	213	121	316	158	52
Wastewater Treatment Division	35	248	42	435	45	456	28	249
Department of Judicial Administration	28	247	9	227	20	180	8	88
Environmental Health Services	13	53	38	53	32	39	22	42
Regional Animal Services	10	5	6	2	6	3	6	2
Parks Division	4	–	2	–	4	–	1	–

*2024 data is as of August 2 for Treasury Operations; September 11 for Wastewater Treatment Division; July 25 for Environmental Health Services; and June 30 for Department of Judicial Administration and Regional Animal Services of King County. Parks Division does not accept e-checks.

Source: King County Auditor’s Office analysis

Appendix 2: Returned Check Fee Revenue and Collection Rate for Select Agencies

EXHIBIT 2: Returned check fee revenue, 2021-2023

COUNTY AGENCY	2021	2022	2023	AVERAGE
Treasury Operations	\$10,052	\$13,619	\$12,366	\$12,012
District Court	\$1,393	\$4,457	\$8,211	\$4,687
Wastewater Treatment Division	\$735	\$280	\$105	\$373
Department of Judicial Administration	\$5,121	\$6,120	\$3,780	\$5,007
Environmental Health Services	\$1,260	\$1,784	\$1,610	\$1,551

Source: King County Auditor's Office analysis

EXHIBIT 3: Returned check fee collection rate, 2021-2023

COUNTY AGENCY	2021	2022	2023	AVERAGE
Treasury Operations	35%	55%	38%	42%
District Court	16%	38%	54%	39%
Wastewater Treatment Division	88%	14%	5%	23%
Department of Judicial Administration	61%	86%	62%	69%
Environmental Health Services	55%	56%	65%	58%

Notes: Collection rate is actual revenues divided by expected revenues, assuming agency fee rules and no fee waivers. Fee waivers are necessary in some cases to comply with state law, which does not allow returned check fees in cases of legitimate stop pay orders. King County District Court attributed its increase in collection rates from 2021 to 2022 to the court beginning to accept e-checks.

Source: King County Auditor's Office analysis



Appendix 3: Excerpt from County Revenue Policies

Below is an excerpt from the Office of Performance, Strategy, and Budget’s “Comprehensive Financial Management Policies” document, Revenue Policies section, part IV, updated February 15, 2022.

Fees and Grants

User Fees and Service Charges

1. County services that provide private benefit should be supported by fees and charges borne by the direct beneficiary. In determining whether to subsidize a service, the County can consider subsidizing a portion of the cost of service or implementing variable pricing to support equity and social justice goals, County local government services, environmental concerns, or economic development.
2. Charges for services that benefit specific users should recover the full cost of the service to the County within legal constraints. This shall include direct and indirect costs, associated capital costs, department and countywide overhead, and the cost of risk. Departments that impose fees or service charges should prepare and periodically review the cost-of-service in order to ensure adequate cost recovery and that revenues are meeting intended program goals. Charges for space or real estate should be consistent with either the County’s streamlined rate or comparable market leases.
3. Consideration of fee and user charges will take the following into account:
 - The true or comprehensive cost of providing a service, including the cost of fee collection and administration,
 - Consistency with the County’s financial policies and the King County Strategic Plan,
 - Stability of the revenue source over its expected life,
 - The degree to which a service provides a positive regional benefit in addition to the direct private benefit provided to a specific business, property, or individual,
 - The economic impact of new or expanded fees, especially in comparison with other governments within the metropolitan area, and
 - The impact of increasing or imposing the fees and user charges on all residents, especially on economically at-risk populations, businesses, and other organizations.
4. Any charges for services or fees that do not recover County costs or real estate assets that are charged out below market should maintain documentation on the policy rationale for the exception.

Appendix 4: Executive Response

King County Executive
401 Fifth Avenue, Suite 800
Seattle, WA 98104
206-296-9600 Fax 206-296-0194
TTY Relay: 711
www.kingcounty.gov

January 16, 2025

Kymber Waltmunson
King County Auditor
516 Third Ave Suite 1033
Seattle, WA 98104

Dear Ms. Waltmunson:

Thank you for the opportunity to review and comment on the proposed audit report titled *“Opportunities for Improvement in Returned Check Fees, Collections.”*

The enclosed recommendation table outlines responses to each of the ten (10) recommendations. The agencies audited concur with each of the recommendations. These recommendations will support improvements in the areas of efficiency and equity, consistent with the Executive branch values “we are racially just” and “we are responsible stewards.”

We appreciate the time and effort your staff have put into this audit. All audited agencies look forward to providing updates about our progress on the recommendations.

Sincerely,



Dwight Dively,
Chief Operating Officer

c:

Shannon Braddock, Deputy County Executive, Office of the Executive
Karan Gill, Chief of Staff, Office of the Executive
Jennifer Hills, Deputy Chief Operating Officer, Office of the Executive
Kelli Carroll, Director of Special Projects, Office of the Executive
Lorraine Patterson-Harris, Director, Department of Executive Services (DES)
Dr. Faisal Khan, Director, Public Health – Seattle and King County (PHSKC)
John Taylor, Director, Department of Natural Resources and Parks (DNRP)
Ken Guy, Director, Finance and Business Operations Division, DES
Dylan Orr, Director, Environmental Health Services Division, PHSKC
Kamuron Gurol, Director, Wastewater Treatment Division, DNRP
Norm Alberg, Director, Records and Licensing Services Division, DES
Warren Jimenez, Director, Parks and Recreation Division, DNRP

Recommendation 1

The Finance and Business Operations Division should document and communicate guidance on returned check fees to all county agencies.

AGENCY RESPONSE

CONCURRENCE **CONCUR**

IMPLEMENTATION DATE 3/31/2025

RESPONSIBLE AGENCY Finance and Business Operations Division

COMMENT No comment

Recommendation 2

King County Treasury Operations should develop, document, and implement a plan to periodically review the cost of returned checks to ensure returned check fees adequately recover costs and align with programmatic goals as outlined in King County Comprehensive Financial Management Policies.

AGENCY RESPONSE

CONCURRENCE **CONCUR**

IMPLEMENTATION DATE 9/2/2025

RESPONSIBLE AGENCY Finance and Business Operations Division

COMMENT No comment

Recommendation 3

The Wastewater Treatment Division should develop, document, and implement a plan to periodically review the cost of returned checks to ensure returned check fees adequately recover costs and align with programmatic goals as outlined in King County Comprehensive Financial Management Policies.

AGENCY RESPONSE

CONCURRENCE **CONCUR**

IMPLEMENTATION DATE 03/31/2025

RESPONSIBLE AGENCY Wastewater Treatment Division (WTD)

COMMENT Effective January 1, 2025, WTD commenced charging a \$35 returned check fee for all payment returns (paper checks and electronic checks) regardless of return reason. In 2025 WTD will review the cost of processing returned checks, related bank fees, and assessing associated return check fees. WTD is implementing a new process for declined electronic checks now so that data is available to perform a cost recovery assessment of this activity.

Recommendation 4

Public Health–Seattle & King County should develop, document, and implement standard operating procedures for returned checks that include pricing criteria, roles and responsibilities, and monitoring activities to ensure complete and accurate fee collection and data entry.

AGENCY RESPONSE

CONCURRENCE **CONCUR**

IMPLEMENTATION DATE 12/31/2025

RESPONSIBLE AGENCY Public Health-Seattle & King County (PHSKC)

COMMENT PHSKC will develop, document, and implement departmentwide standard operating procedures for returned checks, that include pricing criteria, roles and responsibilities, and monitoring activities to ensure complete and accurate fee collection and data entry.

Recommendation 5

The Finance and Business Operations Division should develop, document, and implement a plan to periodically review the cost of reconciling payments from collections to ensure administrative fees adequately recover costs and align with programmatic goals as outlined in King County Comprehensive Financial Management Policies.

AGENCY RESPONSE

CONCURRENCE **CONCUR**

IMPLEMENTATION DATE 3/31/2025

RESPONSIBLE AGENCY Finance and Business Operations Division

COMMENT No comment

Recommendation 6

The Finance and Business Operations Division should develop, document, and communicate guidance on the use of collections to all county agencies.

AGENCY RESPONSE

CONCURRENCE **CONCUR**

IMPLEMENTATION DATE 8/29/2025

RESPONSIBLE AGENCY Finance and Business Operations Division

COMMENT No comment

Recommendation 7

Regional Animal Services of King County should develop, document, and implement standard operating procedures for sending accounts to collections that address how processes align with agency goals related to equity, efficiency, and effectiveness.

AGENCY RESPONSE

CONCURRENCE **CONCUR**

IMPLEMENTATION DATE 12/31/2025 (Following FBOD implementation of Recommendation 6)

RESPONSIBLE AGENCY Records and Licensing Services Division

COMMENT Regional Animal Services of King County will develop, document, and implement standard operating procedures as recommended.

Recommendation 8

King County Parks Division should develop, document, and implement standard operating procedures for sending accounts to collections that include clear timelines, rules for any exceptions, and template letters that align with state requirements for notice of collection.

AGENCY RESPONSE

CONCURRENCE **CONCUR**

IMPLEMENTATION DATE 6/30/2025 (with possible subsequent edits resulting from Recommendation #6)

RESPONSIBLE AGENCY King County Parks and Recreation Division

COMMENT No comment

Recommendation 9

King County Parks Division should develop, document, and implement standard operating procedures to ensure that Parks Division bills customers of the King County Aquatic Center monthly and that customers pay in full within 30 days of billing.

AGENCY RESPONSE

CONCURRENCE **CONCUR**

IMPLEMENTATION DATE 6/30/2025

RESPONSIBLE AGENCY King County Parks and Recreation Division

COMMENT No comment

Recommendation 10

Public Health–Seattle & King County should develop, document, and implement standard operating procedures for sending accounts to collections that clarify roles and responsibilities at the division and department level.

AGENCY RESPONSE

CONCURRENCE **CONCUR**

IMPLEMENTATION DATE 12/31/2025

RESPONSIBLE AGENCY Public Health-Seattle & King County (PHSKC)

COMMENT By the end of 2025, PHSKC will develop, document, and implement departmentwide standard operating procedures for sending accounts to collections that clarify roles and responsibilities at the division and department level.



Appendix 5: Statement of Compliance, Scope, Objective, & Methodology

Statement of Compliance with Government Auditing Standards

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Scope of Work on Internal Controls

We assessed internal controls related to the objectives of having cost-effective and equitable returned check fees and collections processes. We considered whether agencies had documented procedures and relevant information such as costs, cost recovery targets, and other competing goals, like equity, that might affect cost recovery. We tested whether procedures were followed in practice and, if not, what if any monitoring and oversight activities were in place and the extent to which roles and responsibilities were clearly articulated. Our review of internal controls included enforcement of accountability within the control environment, control activities, information and communication, and monitoring. We considered the design, implementation, and effectiveness of internal controls.

Scope

This audit will review the processes and data associated with checks issued to King County agencies and returned by the financial institution. Processes include the use of handling fees, under King County Code 4A.600.100, as well as collections activities carried out by agencies and King County's collections vendor. Checks include both physical checks and e-checks. We will assess processes in place in 2023 and 2024 in the context of data and practices dating back to 2017. County agencies will include those accepting and handling checks. The following agencies are included in our agency data sample, which may be expanded or contracted based upon preliminary observations and risk:

- Department of Executive Services
 - King County International Airport
 - Facilities Management Division, Real Estate Services
 - Finance and Business Operations Division, Accounts Receivable
 - Finance and Business Operations Division, Treasury Operations
 - Records and Licensing Services, Regional Animal Services of King County

- King County District Court
- Department of Natural Resources and Parks
 - Parks Division
 - Wastewater Treatment Division
- Public Health–Seattle & King County, Environmental Health Services Division

Objectives

1. To what extent do returned checks affect county revenue?
2. To what extent are processes for handling returned checks equitable and effective?
3. To what extent do fees associated with returned checks and collections comply with county code, state law, and contract provisions?

Methodology

To determine the impact of returned checks on King County revenue, we compared actual returned check fee revenues reported in the County’s central finance system or agency side systems, to expected and potential revenues. Expected revenues are revenues that would be collected if the agency had a collection rate of 100 percent on all returned checks, given their existing fee rules. Potential revenues are revenues that could have been collected at the existing collection rate, assuming more expansive fee rules, such as applying fees to e-checks instead of only to paper checks, to all checks instead of no checks, or to all return reasons instead of one.

To get counts of returned checks, we requested data on all returned e-checks from the County’s e-payment vendor for 2021 through June 2024. We also pulled data directly from the web portal of the County’s banking services provider, for a list of all paper checks. Where additional information was needed to assign checks to the correct agency, we used returned check logs provided by King County Treasury Operations and the Accounts Receivable section of Finance and Business Operations Division or requested counts or queries from agency side systems.

To determine the extent to which processes were equitable and effective, we interviewed staff working on accounts receivable and customer service from the Finance and Business Operations Division, Wastewater Treatment Division, Environmental Health Services Division, Public Health–Seattle & King County, King County Parks Division, King County District Court, Department of Judicial Services, King County Treasury Operations, King County Information Technology, King County International Airport, Real Estate Services Division, Regional Animal Services of King County, and the Prosecuting Attorney’s Office. We reviewed documented processes and procedures from agencies we interviewed as well as state law, King County Code, county financial policies, the County’s most recent Equity and Social Justice Strategic Plan, and best practices on accounts receivable and fee setting from the Office of the Washington State Auditor,

Government Finance Officers Association, and US Government Accountability Office. To understand customer payment preferences, we reviewed consumer diary research by the Federal Reserve Bank of Atlanta.

Depending on the results of our interviews and document reviews, we tested accounting records to ensure that returned checks and returned check fees were recorded accurately and completely, and reviewed data on aging accounts to see whether it aligned with stated processes. To check for comprehensiveness, we requested queries of returned checks from agency receipting systems and compared total counts by year to the data from the bank and the e-payment vendor. To verify collections processes, we reviewed accounts receivable aging data in King County's central finance system, or requested agency reports, or data sets listing unpaid accounts by age to see the value of accounts more than 90 days old. Where staff indicated that delayed invoicing may impact the aging reports, we looked up customer accounts directly in the agency point of sale system to see the date of their service. Where data was available, we also calculated the time lag between check payments, check returns, notices of returned checks, and payment, and tested the frequency at which specific customers sent in returned checks.

To determine the extent to which fees complied with county code, state law, and contract provisions, we conducted document review of King County Code, state and federal law, and the collections contract. We pulled data directly from the collections vendor's website on accounts referred to collections and the extent to which customers had paid on those accounts. We also used the vendor website to pull remittance statements for agencies in our sample with statements that were from 2017 or later. Where statements were within these parameters, we reviewed a judgmental sample of the most recent remittance statements to ensure that dollar amounts matched stated commission, interest, and administrative fee rates.



Appendix 6: List of Recommendations

Recommendation 1

The Finance and Business Operations Division should document and communicate guidance on returned check fees to all county agencies.

Recommendation 2

King County Treasury Operations should develop, document, and implement a plan to periodically review the cost of returned checks to ensure returned check fees adequately recover costs and align with programmatic goals as outlined in King County Comprehensive Financial Management Policies.

Recommendation 3

The Wastewater Treatment Division should develop, document, and implement a plan to periodically review the cost of returned checks to ensure returned check fees adequately recover costs and align with programmatic goals as outlined in King County Comprehensive Financial Management Policies.

Recommendation 4

Public Health–Seattle & King County should develop, document, and implement standard operating procedures for returned checks that include pricing criteria, roles and responsibilities, and monitoring activities to ensure complete and accurate fee collection and data entry.

Recommendation 5

The Finance and Business Operations Division should develop, document, and implement a plan to periodically review the cost of reconciling payments from collections to ensure administrative fees adequately recover costs and align with programmatic goals as outlined in King County Comprehensive Financial Management Policies.

Recommendation 6

The Finance and Business Operations Division should develop, document, and communicate guidance on the use of collections to all county agencies.

Recommendation 7

Regional Animal Services of King County should develop, document, and implement standard operating procedures for sending accounts to collections that address how processes align with agency goals related to equity, efficiency, and effectiveness.

Recommendation 8

King County Parks Division should develop, document, and implement standard operating procedures for sending accounts to collections that include clear timelines, rules for any exceptions, and template letters that align with state requirements for notice of collection.

Recommendation 9

King County Parks Division should develop, document, and implement standard operating procedures to ensure that Parks Division bills customers of the King County Aquatic Center monthly and that customers pay in full within 30 days of billing.

Recommendation 10

Public Health–Seattle & King County should develop, document, and implement standard operating procedures for sending accounts to collections that clarify roles and responsibilities at the division and department level.



Appendix 7: Advancing Performance & Accountability

KYMBER WALTMUNSON, KING COUNTY AUDITOR

MISSION Improve government performance, accountability, and transparency by providing impactful, independent analyses

VALUES INDEPENDENCE • CREDIBILITY • IMPACT

The King County Auditor’s Office is committed to equity, social justice, and ensuring that King County is an accountable, inclusive, and anti-racist government. While planning our work, we develop research questions that aim to improve the efficiency and effectiveness of King County government and to identify and help dismantle systemic racism. In analysis we strive to ensure that communities referenced are seen, not erased. We promote aligning King County data collection, storage, and categorization with just practices. We endeavor to use terms that are respectful, representative, and people- and community-centered, recognizing that inclusive language continues to evolve. For more information, see the King County [Equity and Social Justice Strategic Plan](#), King County’s [statement on racial justice](#), and the King County [Auditor’s Office Strategic Plan](#).

ABOUT US The King County Auditor’s Office was created by charter in 1969 as an independent agency within the legislative branch of county government. The office conducts oversight of county government through independent audits, capital projects oversight, and other studies. The results of this work are presented to the Metropolitan King County Council and are communicated to the King County Executive and the public. The King County Auditor’s Office performs its work in accordance with Government Auditing Standards.



This audit conforms to Generally Accepted Auditing Standards for independence, objectivity, and quality.